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SUBJECT: TURKEY: SHELL JOINS SAMSUN-CEYHAN

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Sensitive But Unclassified. Please handle accordingly.

¶1. (SBU) Summary: In a potentially significant development for Turkey's quest to build the Samsun-Ceyhan project as the first real "Bosphorus bypass" oil pipeline, Royal Dutch Shell announced September 26 that it signed a contract with Calik Energy and Italian ENI for participation in the development of the pipeline project. Although the commitment was not clearly defined and the project still faces competition and hurdles in gaining sufficient oil throughput and financing, this is a potentially critical step for realizing Turkey's long preferred "Bosphorus bypass" project. End Summary.

¶2. (U) The statement issued by Shell pointed out the importance of this by-pass project in reducing tanker traffic through the Straits, and in establishing a sustainable export corridor for crude oil going from Russia and the Caspian through the Black Sea to the Mediterranean. Shell Turkey GM Canan Ediboglu told Reuters the project partners targeted Kazakh oil as through-put in the pipeline. Ediboglu noted Shell's partnership with ENI in Kazakhstan's Kashagan field and the Russian CPC pipeline, which was a key factor in their decision to participate in Samsun-Ceyhan. The Shell rep said the plan was to transport Kazakh oil to the Black Sea through CPC and then to feed it into Samsun-Ceyhan.

¶3. (SBU) Turkish Calik Energy and ENI recently announced formation of a company - the Turkish Anatolian Pipeline Co., TAPCO - to develop the project, which has been long supported by the Turkish Government as the preferred route to seek to allay tanker congestion in the Turkish Straits and to foster development of an energy hub at Ceyhan. Calik Energy was granted an exclusive six-month license in May by the GOT to gain oil through-put and financing commitments, but Calik representatives told us they expected that the GOT would give them more time to develop the pipeline project (Reftel). Chevron, TNK-BP, TOTAL (which made a separate application for a license) and other Russian companies have all been looking at the project, but have remained uncommitted.

¶4. (SBU) BOTAS acting DG Saltuk Duzyol told us Shell's participation was good news for realization of this project, but noted that the competing Burgos-Alexandropoulos project, which has strong Russian backing, was also far along. He noted, moreover, that Shell's specific commitment was undefined at this point and Calik's license would soon potentially expire. Duzyol opined that Russian through-put guarantees would still be important to make the project happen, but that Shell's participation could create momentum. The BOTAS DG said that BOTAS had been approached by the

consortium with proposals for using oil storage at Ceyhan, building new storage tanks and a new jetty, and supplying gas to pump stations, but he said that BOTAS was still waiting for a clearer go ahead from both the government's Council of Ministers and oil shippers.

Wilson